## **BEFORE**

## THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2006-257-G - ORDER NO. 2006-537 SEPTEMBER 20, 2006

IN RE: Petition of South Carolina Electric and Gas Company for Authorization to Engage in the Temporary Hedging of Natural Gas Supplies	) ) ) )	ORDER APPROVING TEMPORARY HEDGING PLAN
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This matter comes before the Public Service Commission of South Carolina (the Commission) on the Petition of South Carolina Electric & Gas Company (SCE&G or the Company) for an Order authorizing SCE&G to enter into contracts, swaps, and other financial instruments for the hedging of natural gas supplies ("hedges" or "hedging"), and to include financial gains, losses, and costs of the program in SCE&G's calculation of gas supply costs.

Specifically, SČE&G seeks approval to implement a hedging program as a temporary bridge under the same terms and conditions as approved by the Commission for South Carolina Pipeline Corporation (SCPC) in Order No. 95-1253 and subsequent orders, including Order No. 2006-331. This temporary bridge is requested to cover the period between the anticipated date of SCPC's transition to Federal jurisdiction (currently estimated to be October 1, 2006) and until the Commission issues its final Order in the upcoming Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company in Docket No. 2006-5-G (the "2006 PGA").

The Office of Regulatory Staff (ORS) has reviewed this Petition and has no objection to the relief requested and the entry of an order embodying its terms.

SCE&G notes that as of the effective date of SCPC's merger, as anticipated in Order No. 2006-331, SCPC will cease all hedging activities, and SCE&G will have to undertake any subsequent hedging of SCE&G's gas volumes in its own name.

Accordingly, SCE&G seeks authorization to implement a temporary hedging program, as of the effective date of the merger, under the same terms and conditions as approved by the Commission for SCPC in Order No. 95-1253 and subsequent orders, including Order No. 2006-331.

In its 2006 Purchased Gas Adjustment (PGA) case, SCE&G intends to present testimony concerning future hedging models that might be suitable for SCE&G and concerning the option of proceeding with no hedging program at all. SCE&G seeks this authorization solely as a temporary bridge until the Commission issues its final order in the 2006 PGA. SCE&G's administration of the temporary hedging program requested in this docket and SCE&G's compliance with the terms of the Order requested here would be subject to review in future Purchased Gas Adjustment proceedings.

In making the present request, SCE&G specifically represents that it would use the same hedging programs, models, targets, triggers, strategies, software, and parameters as are currently used by SCPC. Further SCE&G would continue to hedge up to 75% of its average firm supply, computed by averaging the firm demands of the past three years, as SCPC is currently authorized by Order No. 2006-331. Further, the contracts, positions, and hedges entered into by SCPC and transferred to SCE&G pursuant to Order No. 2006-

331 would be fully recognized and taken into account in SCE&G's administration of the hedging program in its name. No substantive changes to the SCPC hedging program or its administration are anticipated as a result of the requested Order apart from the change in the entity on whose behalf it is conducted. According to SCE&G, the issuance of the requested Order will not involve a change to any of SCE&G's rates, rate structure or overall rate of return, or of any Commission rule, regulation or policy.

SCE&G is basically requesting that we authorize SCE&G to commence operating the hedging program described above in its own name as of the later of October 1, 2006 or the effective date of the SCPC/SCG merger, and that we authorize the inclusion of financial gains, losses, and costs of the program in SCE&G's calculation of gas supply costs. We grant the requested relief. Clearly, SCE&G should be able to carry on SCPC's hedging program under the terms described above as of the later of October 1, 2006 or the effective date of the SCPC/SCG merger until such time as we determine whether or not a hedging program is suitable and in the public interest for SCE&G in the future PGA proceeding. Further, the inclusion of financial gains, losses, and costs of the program in SCE&G's calculation of gas supply costs is reasonable, and we so hold. The Company's Petition is hereby granted as filed, and the terms and conditions stated therein shall apply.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

G. O'Neal Hamilton, Chairman

ATTEST:

C. Robert Moseley, Vice-Chairman

(SEAL)